ACKLANDS LIMITED

1967

ANNUAL REPORT 1967

THE WORLD OF
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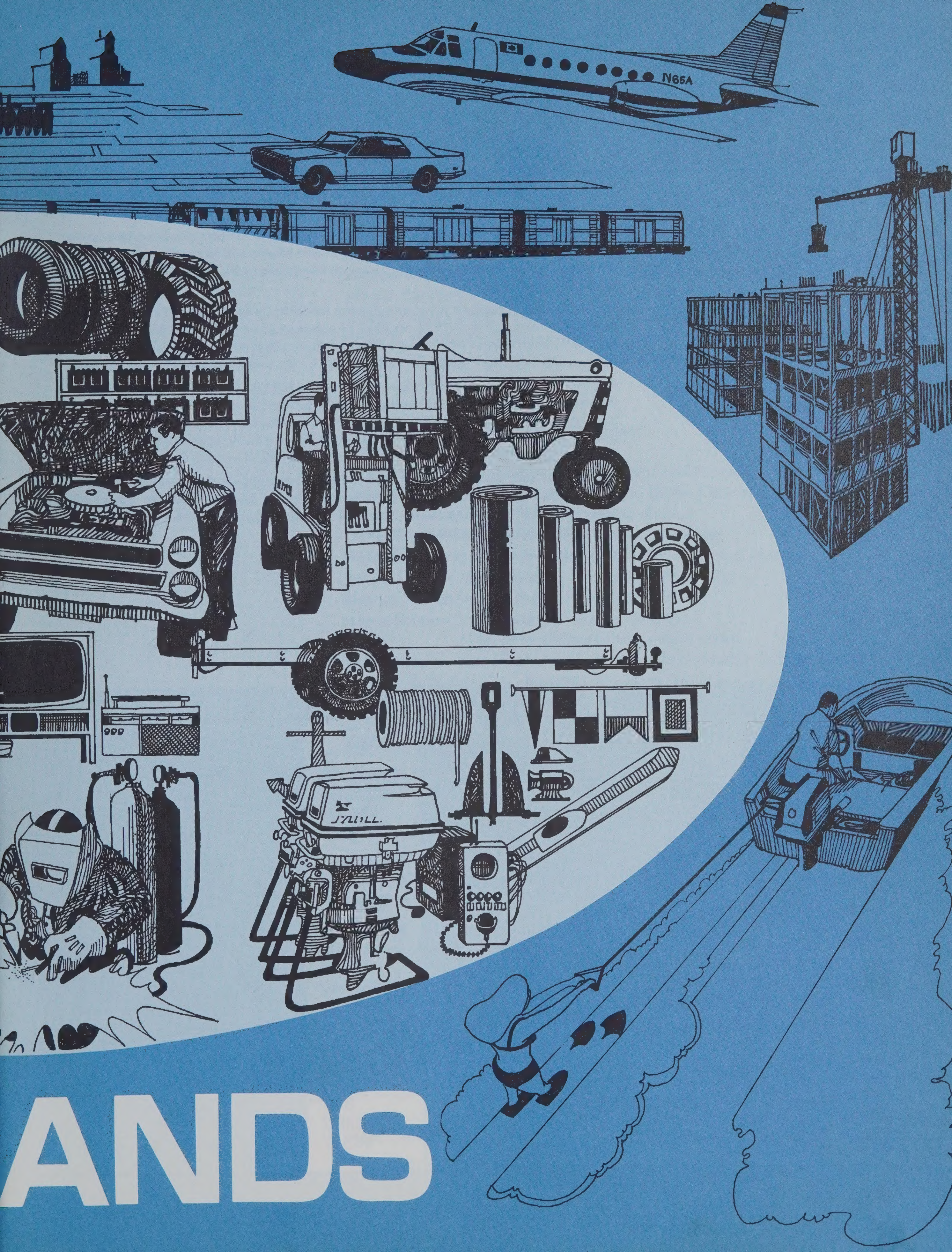
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ACKLANDS

ACHIEVEMENT

ADVANCE

We are a group of wholesale distribution companies marketing automotive parts, mercantile and industrial hardware and supplies, as well as consumer goods. As a Canadian corporation we acknowledge four basic responsibilities:

Our first responsibility is to our customers who look to us for the best goods available at the lowest economically justified price. Our aim is to give reliable and fast service, regardless of location. To achieve this we tailor our branch inventories to the specific needs of the area or of a large industrial client.

Our second responsibility is to our shareholders whom we keep informed of all developments affecting the company and whom we serve by operating at a high level of efficiency and at a reasonable profit margin. Our aim here is to provide an adequate yield on shareholders' equity, while retaining a reasonable part of profits for the continued growth of the company.

Our third responsibility is to our employees. We recognize that the human element in our organization is one of its greatest assets. We pay good salaries and, in addition, generous bonuses related to results. Although our operations are based on established procedures and uniform policies we encourage initiative and constructive thinking at all levels of management. Our regional and branch managers are allowed a fair degree of freedom in business decisions.

Last, but not least, we recognize the importance of good corporate citizenship and our responsibility to the communities we serve as well as to the country as a whole. We believe in free enterprise and in the principle that in a democratic society every economic activity is expected to yield a reasonable reward.

HIGHLIGHTS

	1967	1966
Sales	**$84,834,234**	**$19,838,899**
Income before depreciation, long-term interest and income taxes	3,294,266	1,262,295
Depreciation	686,758	222,874
Interest on long-term debt	538,647	153,906
Income before income taxes	$ 2,068,861	$ 885,515
Income taxes	(17,882)	$ 425,000
Net Income	**$ 2,086,743**	**$ 460,515**
Working Capital	$13,696,708	$ 3,555,793
Number of branches	150	36
First preference shares outstanding	39,266	39,675
Second preference shares outstanding	1,857,240*	—
Common shares outstanding	523,479	483,479
Equity per first preference share	$ 400.18	$ 109.20
Equity per second preference share	7.93	—
Equity per common share	**10.40**	**6.91**
Earnings per first preference share	53.14	11.61
Earnings per common share (after first preference dividends)	**3.87****	**.83**
Dividends paid first preference shareholders	59,082	59,731
Dividends paid common shareholders	83,197	58,018

*1,237,240 after 1968 conversion **$1.74 per share after 1968 conversions

DIRECTORS AND OFFICERS

Board of Directors

*Hyman Bessin, Ottawa
Donald E. Boxer, Toronto
Michael H. Caine, London, England
John J. Dawson, Hamilton
*George Forzley, Vancouver
Henry R. B. Kirkpatrick, Vancouver
Frederick H. Peacock, Calgary
Dr. Nathan Schecter, Ottawa
*Nathan Starr, C.A., Toronto
*Donald J. Wilkins, Toronto
Joseph Wolinsky, Winnipeg
*Leonard Wolinsky, Toronto
Max Wolinsky, Q.C., Winnipeg

**Members of Executive Committee*

Officers

Leonard Wolinsky, *Chairman of the Board*
Hyman Bessin, *President*
Nathan Starr, C.A., *Executive Vice-President and Secretary-Treasurer*
George Forzley, *Senior Vice-President and General Manager*
John J. Dawson, *Vice-President, Ontario division*
Donald J. Dawson, *Vice-President, Manitoba division*
Henry R. B. Kirkpatrick, *Vice-President, British Columbia division*
Arnold H. Main, *Vice-President, Saskatchewan division*
Norman A. Peden, *Vice-President, Alberta division*
Arthur Eramian, *Vice-President, Quebec Division*
Director of Merchandising – Automotive
Melville Byron, *Vice-President, Electronics and Consumer Goods Division*
Leonard G. Walker, C.A., *Assistant Secretary-Treasurer*
Samuel H. Blank, *Vice-President – Purchasing*
Leonard J. Kenna, *Vice-President, Administration and Control*
Alex Kozma, *Assistant to the Senior Vice-President*
and General Manager – Automotive, Saskatchewan
Allan Ireland, *Assistant to the Senior Vice-President*

Transfer Agents

The Canada Trust Company, Toronto, Winnipeg and Montreal
Shares listed on Toronto and Winnipeg Stock Exchanges

Counsel

Sokolov, Wolinsky and Company, Winnipeg

Auditors

Thorne, Gunn, Helliwell & Christenson

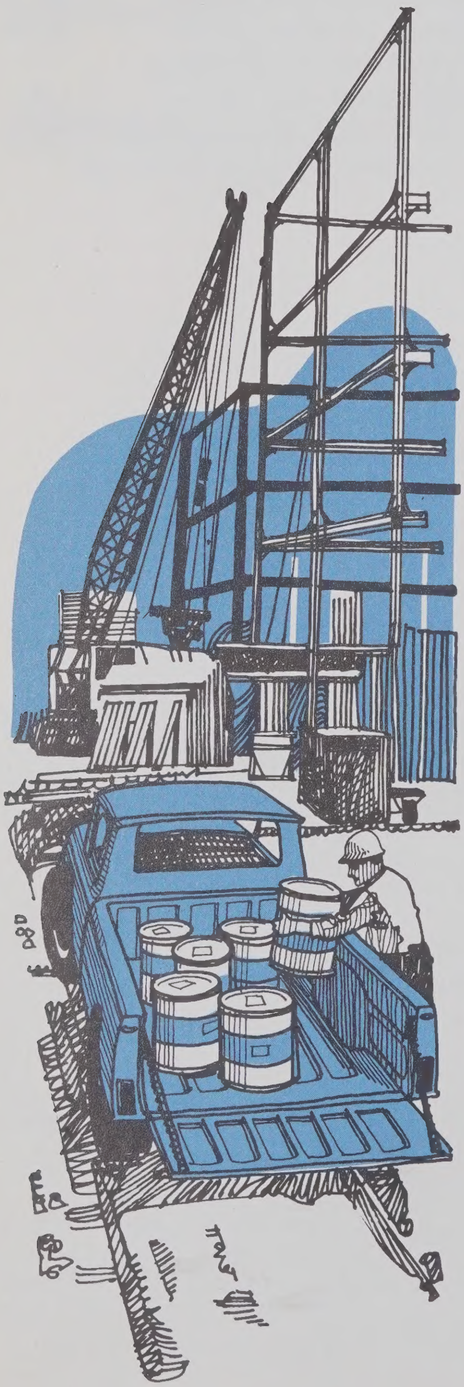
Fiscal Agents

Fry & Company Limited, Toronto

Head Office

125 Higgins Ave., Winnipeg 2, Manitoba

Directors' report to the shareholders:



The year ended November 30, 1967, marks a milestone in the development and growth of your company. It was a year of unprecedented expansion, far reaching consolidation and of relentless efforts aimed at welding into one smoothly functioning organization the existing Acklands company and all the businesses acquired during the year.

We are happy to report that the integration process has now been completed and, most important, that we were able to turn into profitable operations those of the newly acquired companies which previously had shown substantial losses.

It is, therefore, with great pleasure that your directors present to you the financial statements and the report on your company's operations for the year 1967.

Financial Results

In spite of the numerous difficulties accompanying the consolidation and integration of all operations stretching from Vancouver Island in British Columbia to Montreal in Quebec, your management was able to achieve during the last year (eleven months for the acquired companies) a sales volume of \$84,834,234 and a net profit of \$2,086,743. Owing to very substantial prior years' losses carried forward in some of the acquired companies, Acklands' consolidated accounts show no tax liability for the year 1967. In fact, as you will note from the financial statements, management is claiming a tax refund of \$17,882.

On the basis of the number of common shares outstanding as at November 30, 1967, earnings per share after preferred dividends were \$3.87. After conversion in 1968 of 620,000 (out of 1,857,240) non-dividend-bearing second preference shares, effected under a formula related to profit, and a further annual conversion of subordinated debentures (into 22,500 shares), total common stock outstanding will be 1,165,979 shares. Calculated on this larger equity basis, net earnings per common share are \$1.74.

Corresponding figures for 1966 were: sales—\$19,838,899, net earnings—\$460,515, and earnings per common share—83¢. A valid conclusion can be drawn from 1967 results as a measure of your management's success in integrating all the new companies and attaining a substantial profit in this first year of consolidated operations. Such a conclusion is particularly and specifically borne out by the fact that for the year 1966 and prior to the acquisition by Acklands, the Prairie Pacific companies, showed a loss in excess of \$4 million.

The momentum of progressive integration and, with regard to some companies, of rehabilitation, is best illustrated by an analysis of last year's sales and profit figures in three periods:

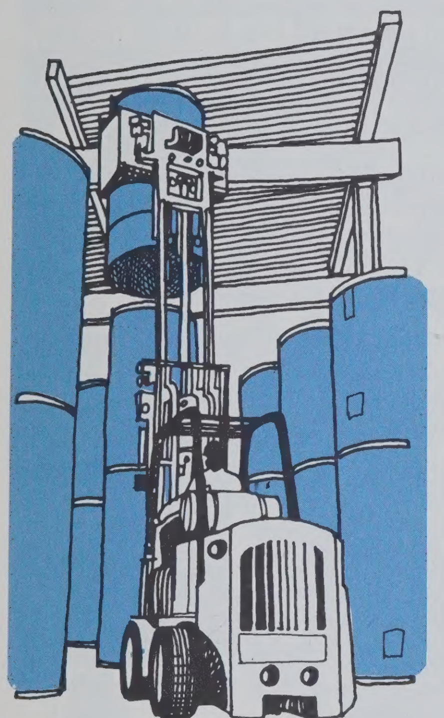
1967	Sales	Net Profit	Net Profit Margin
Dec. 1–May 31 *(first and second quarters)*	\$36,000,000	\$515,000	1.4%
June 1–Aug. 31 *(third quarter)*	\$21,000,000	\$565,000	2.7%
Sept. 1–Nov. 30 *(fourth quarter)*	\$27,000,000	\$1,006,000	3.7%

It should be noted that had it not been for the substantial non-recurring costs absorbed in 1967, profit for the year would have been even higher.

Operations

Consolidation, integration and increased efficiency, were the keynotes of your company's operations in 1967.

The first and most formidable task facing your management was to put an immediate end to losses being incurred by some of the newly acquired companies. As a result of a concerted drive by all levels of management during the first six months, operational costs of these companies were drastically cut and expenses



reduced by more than $2 million on an annual basis.

Many branch operations were closed or merged to eliminate duplication and to increase efficiency, particularly in areas of lesser business activity. Redundant real estate was disposed of and funds from this source were used to retire during the year the entire $2 million bank loan incurred by Acklands in connection with the purchase of the Booker Group's interest in the Prairie Pacific Distributors' group of companies.

In the course of centralizing the financial record keeping for Acklands' new western subsidiaries, some serious accounting difficulties were encountered. These have now been resolved.

A major effort was put into evaluating and balancing accounts receivable, and in checking inventories in warehouses and branches of the new companies. Excess inventories had to be reduced, obsolete stocks updated and imbalances in inventories corrected.

Substantial changes were made in your company's product lines. Some new lines were introduced into the acquired companies and Acklands' stock-in-trade was augmented by additional products.

Many non-recurring costs had to be met due to the necessity of moving people, stocks and whole operations, renovating or repairing facilities and incurring legal, auditing and many other expenses unavoidable in the circumstances.

New Developments

With some 90% of total sales being generated west of the Lakehead, it was only natural that your management should try to extend Acklands' marketing organization eastward into Ontario and Quebec.

Following a program of planned expansion, your company made four new corporate acquisitions in 1968 adding 23 warehouses and branches to its existing distribution system. The details of these acquisitions are as follows:

Morgan Welding Supply Company Ltd. is a Sault Ste. Marie-based operation with a branch at Sudbury. A profitable business, with an annual sales volume of $1,100,000, it forms a useful extension of Acklands' welding division and will be under the direction of your company's Ontario vice-president. The acquisition of this company was effected in cash.

Delisle Ltée is a distributor and warehouse re-distributor (through its subsidiary, DAL Warehousing Limited) of automotive parts, supplies and equipment serving the automotive after-market trade. All branches are located in the province of Quebec: at Drummondville, Three Rivers, Shawinigan, LaTuque, Quebec City, La Sarre, Amos, Rouyn, Val d'Or, Lorrainville. Two branches originally located at Dorion and Ste. Therese have in the meantime been closed.

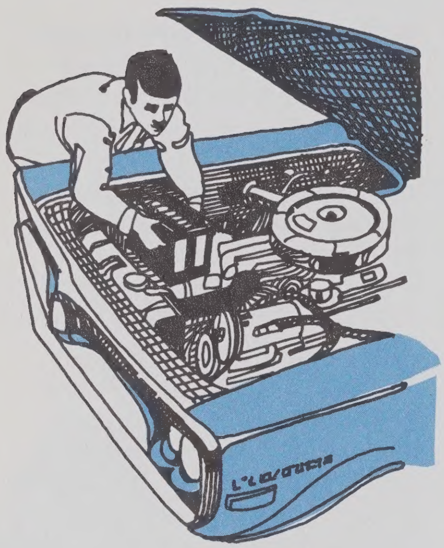
Some of the branches operate their own machine shops.

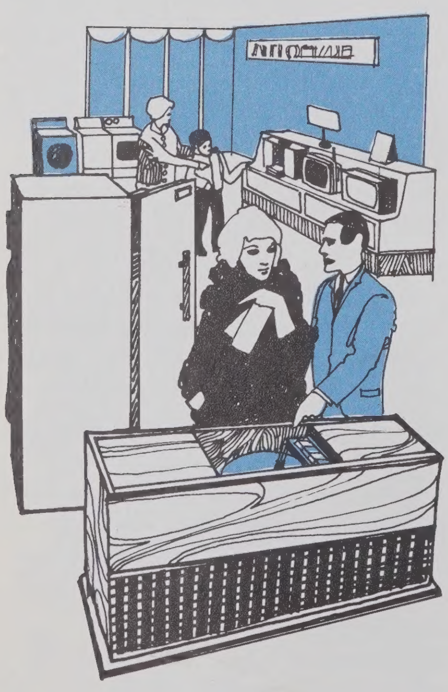
Annual sales volume of Delisle Ltée is about $5¾ million and, although for the past two or three years the company has been trading at a loss, your management is confident that it can be made profitable within a short time.

Delisle Ltée was acquired on a straight cash basis, at less than book value.

The George Taylor Hardware Limited, a wholesale distributor of industrial supplies and hardware, serves industries in northern Ontario and northwestern Quebec. Warehouses and branches are located at New Liskeard, Kirkland Lake, Timmins, Cochrane, North Bay, Sudbury, all in Ontario, and Noranda and Val d'Or in Quebec.

This company holds a 50% equity interest in Cashway North Limited, an important retailer of lumber and





building supplies, operating on an exclusive basis in northern Ontario.

Gross annual sales are in the range of $13-$15 million and the company is operating at a profit.

The George Taylor Hardware Limited was acquired at less than book value by way of purchase of all its outstanding common and preferred shares for cash and non-interest bearing notes.

H. C. Paul Limited, a Winnipeg-based wholesale distributor of Mercury outboard motors, Toro lawnmowers, snowmobiles, Honda motorcycles, Pioneer chain saws and other industrial products.

Ably managed, this company is a profitable operation.

Current Situation

Operating as a group of interrelated and complementary companies, the Acklands marketing organization now extends from Vancouver Island to Quebec City, serving nearly one hundred towns and cities through their 170 warehouses and branches. Some 8,000 firms in Canada and abroad supply a multitude of merchandise items required by more than 65,000 Acklands' customers.

The continued growth of your company and the recent acquisitions in Ontario and Quebec, necessitated a further expansion of our management structure. To provide the high operational efficiency on a Canada-wide scale, executive responsibilities are now divided geographically and by product.

As you will see from the management chart forming part of this report, provincial vice-presidents, responsible for operations in their provinces, report to a senior vice-president who, in turn, is responsible to the executive vice-president of the Acklands' group, and through him to the president and the board of directors.

Each province is divided into zones or regions with branch managers being responsible for local operations.

Automotive and industrial merchandising, electronics and consumer goods, and, to a certain extent, purchasing, form three separate divisions, each directed by a vice-president.

This concept of divided functions ensures that each member of the management group is responsible only for a reasonable and controllable segment of operations.

Modern data processing equipment and computers help to meet management's need for accurate, up-to-date information, and speed up the handling of a large volume of complex accounting data. In Vancouver an IBM 360/30 computer handles administration data, statistics and some inventory control, besides accounts payable, accounts receivable and payroll. In Winnipeg the same tasks are performed by a Burroughs 373 installation.

To illustrate the extent of merchandise and service diversification within your company, it may be useful to mention the main product groups and services supplied by Acklands. They include: a full range of automotive parts and supplies, spark plugs, batteries, tires, reconditioned engines; structural steel, sheets, coil and merchant bar; automatic lift trucks and other material handling equipment; ball and roller bearings; paints and varnishes; grinding wheels, abrasives and adhesives; welding machines, electrodes and gases; outboard and inboard motors, television and Hi-Fi sets, records and record players, tape recorders, TV tubes and light bulbs. Also, complete communication systems and electronic equipment.

Acklands has a number of machine shops which recondition and rebuild engines for cars, trucks and farm machinery, and undertake general industrial repair work. In addition, two

plants produce rebuilt engines, clutches and brakes.

As a wholesale distributor, Acklands not only serves the general needs of communities in which its outlets are located, but also caters to specific and special requirements of its various customers including industrial concerns, mining companies, federal, provincial and municipal government agencies and large wholesale as well as retail organizations. Its services include the development of marketing programs to assist re-sale customers and the design and supply of advanced and sophisticated communication systems for municipalities, hospitals and schools. To assist an industrial customer, Acklands can develop a product to meet his specific needs and, if necessary, even assume the functions of the customer's stores department.

This diversification of product and service, as well as the far-flung geographical distribution of Acklands' branches across Canada, will enable your company to participate fully in the growth and prosperity of all the country's major industrial and consumer areas. On the other hand, they provide a measure of resiliency and safeguards against the effects of possible cyclical down-trends experienced by some industries or geographical areas.

What your management is trying to build is an organization approaching the ideal of being "prosperity-prone and recession-proof".

Outlook

Your management is very optimistic as to the future growth and profitability of your company. We are particularly keen to extend our participation in the large markets of Ontario and Quebec.

We believe that Quebec is a good place to do business and to invest capital; it is also a market of great potential and a challenge worthy of your company.

Looking further into the future, it is the intention of your directors to progressively broaden distribution and marketing of Acklands' range of merchandise between the Atlantic and the Pacific. We are not averse to the idea of vertical integration and, in due course, may try to increase the profitability of your company by further diversification.

The final words of this report go to our employees across Canada. More than ever before are we, as directors of Acklands, aware of the tremendous contributions of time and effort made by the company's management and staff.

On behalf of the board of directors, we wish to acknowledge with gratitude the loyalty and devotion of your company's employees at all levels of responsibilities.

On behalf of the board,

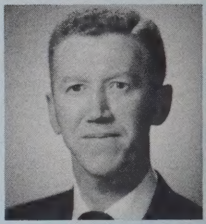
L. Wolinsky,
Chairman

H. Bessin,
President

March 26, 1968.

ACKLANDS LIMITED

MANAGEMENT ORGANIZATION



Leonard Wolinsky,
chairman of the board and a director

Actively engaged in company affairs, Mr. Wolinsky has been successful in manufacturing and commercial real estate. He is also interested in C.A.T.V. operations in western Canada.

Nathan Starr, C.A.,
executive vice-president, secretary-treasurer and a director

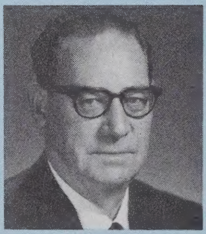
Mr. Starr combines imagination with practical ability, particularly in the field of finance, and is dedicated to the growth and expansion of the company. Active, also, in charitable work.

Samuel H. Blank,
vice-president, director of purchasing

Mr. Blank, as head of Acklands' purchasing division, is responsible for the selection of lines of merchandise for the whole organization. Through him, Acklands' vast purchasing power is utilized to obtain best prices, discounts and terms. His efforts have contributed greatly to Acklands' success.

Melville Byron,
vice-president, electronics and consumer goods division

A graduate electronics engineer, Mr. Byron has an excellent record in electronic test equipment, colo television and sophisticated communication equipment. He supervises the distribution of this type of merchandise, as well as of consumer goods through more than 30 outlets.



Henry R. B. Kirkpatrick,
vice-president, British Columbia division and a director

Highly experienced in the hardware and major appliance fields, Mr. Kirkpatrick joined the Acklands organization as general manager of McLennan, McFeely and Prior Limited in Vancouver, a position which he still holds in addition to his responsibility for directing all of Acklands' operations in the province.

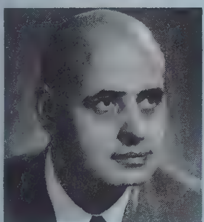
Norman A. Peden,
vice-president, Alberta division

Joined Acklands in 1953 as a salesman and shortly thereafter became manager of the Edmonton branch which, under his direction, became the most profitable in the organization. In connection with the recent expansion of the company, Mr. Peden took over direction of all Acklands' operations in the province.

Arnold H. Main,
vice-president, Saskatchewan division

Hyman Bessin,
president and a director

Mr. Bessin is a man whose vision and ability have contributed greatly to the growth of the company. He has achieved success in several lines of business, notably as an automobile distributor and in real estate. Mr. Bessin is active in educational, charitable and community affairs.



George Forzley,
senior vice-president, general manager and a director

Although still in his early 40s, Mr. Forzley is one of Acklands' oldest employees in length of service. In charge of operations for all of Acklands' branches and subsidiaries, he is an outstanding administrator as well as merchandiser.

Alex Kozma,
assistant to the senior vice-president

Mr. Kozma was controller of T. H. Peacock Limited when it was acquired by Acklands. Successful as branch manager, he was later made assistant to the senior vice-president. Mr. Kozma, still a young man, is also general manager of the automotive division in Saskatchewan.

Leonard G. Walker, C.A.,
assistant secretary-treasurer

A chartered accountant, Mr. Walker joined the company in 1953 as controller taking an active part in its growth. Appointed assistant secretary-treasurer in 1967, he is responsible for the total accounting functions in the Acklands' group of companies.

Mr. Main went full circle with the Bowman Brothers organization, which is now part of Acklands. He joined Bowman Brothers in a junior capacity, rose to chief executive status, then left for the U.S.A. Upon returning to Canada, Mr. Main joined Acklands Limited and, after the Bowman concern was purchased, assumed responsibility for all Acklands operations in the province, including Bowman Brothers.

Donald J. Dawson,
vice-president, Manitoba division

The youngest of Acklands' senior executives, Mr. Dawson joined the company as warehouse clerk and later became sales manager. An excellent administrator, he was put in charge of Manitoba operations in 1967.

ACKLANDS LIMITED WHOLLY OWNED SUBSIDIARIES

Bowman Brothers Distributors Limited

H. C. Burton Company Limited

Canadian Electronics Limited

Gillis & Warren Limited

Lee-Bern Electronics Limited

Mc & Mc Metal Services

McLennan, McFeely and Prior Limited

Johnston Appliances Ltd.

Fred C. Myers Limited

T. H. Peacock Distributors Ltd.

Steel Distributors Limited

Taylor, Pearson and Carson Limited

Western Agencies Limited

Western Automotive Rebuilders

Western Warehouse Distributors Limited

Rupert Industrial Supplies Limited

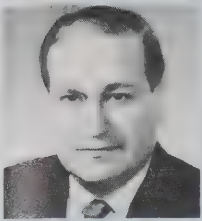
The George Taylor Hardware Limited

Morgan Welding Supply Company Limited

Delisle Ltée

DAL Warehousing Ltd.

H. C. Paul Limited



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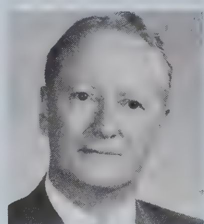

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John J. Dawson,
vice-president, Ontario division, and a director

Prior to joining Acklands, Mr. Dawson controlled and managed the H. C. Burton Company, now one of Acklands' subsidiaries. A qualified engineer, he successfully applies engineering principles to management problems and directs all operations in the Province of Ontario.

Arthur Eramian,
vice-president, Quebec division and director of merchandising–automotive

With many years of experience in the automotive field, Mr. Eramian is in charge of the overall direction of automotive merchandising. His ability and his knowledge of French have made him a natural choice to head the recently created Quebec division.

Acklands Limited (Incorporated under the Laws of Manitoba)
and Subsidiary Companies

CONSOLIDATED BALANCE SHEET, NOVEMBER 30, 1967
(with comparative figures at November 30, 1966)

ASSETS	1967	1966
Current assets		
Cash	$ 819,332	$ 291,896
Accounts receivable	15,596,071	3,443,137
Inventories, at lower of cost and net realizable value	27,983,367	5,228,438
Prepaid expenses	377,609	61,451
	44,776,379	9,024,922
Other assets		
Non-current accounts receivable	131,774	57,596
Special refundable tax	81,459	17,079
Cash for first preference share purchase	50,000	50,000
Deposit on purchase of subsidiary (note 5)	100,100	—
Mortgages and other investments, at cost	113,611	—
	476,944	124,675
Fixed assets, at cost		
Land	1,725,773	487,726
Buildings	7,499,971	1,826,832
Equipment	6,404,525	1,468,493
Leasehold improvements	465,379	62,287
	16,095,648	3,845,338
Less accumulated depreciation	5,938,108	1,103,834
	10,157,540	2,741,504
Intangibles and deferred charges		
Excess of cost of shares in subsidiaries over book value at acquisition	59,254	154,664
Unamortized debenture, bond and share issue costs	178,492	181,926
Goodwill, at cost	5,002	5,001
	242,748	341,591
	$55,653,611	$12,232,692

Approved on behalf of the Board

Nathan Starr, *Director* George Forzley, *Director*

Auditors' Report

To the Shareholders of Acklands Limited

We have examined the consolidated balance sheet of Acklands Limited and subsidiary companies as at November 30, 1967 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. This review disclosed that in the course of centralizing the accounting routines for certain subsidiaries in 1967 there had been a breakdown in the record keeping, and in the related accounting and financial controls, for a material segment of the affairs of those companies for part of the year. We have extended our examination as we considered necessary to enable us to form an opinion on the accounts of the companies taken as a whole.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at November

LIABILITIES	1967	1966
Current liabilities		
Bank advances, secured	$14,768,785	$ 2,085,000
Accounts payable and accrued liabilities	14,784,277	2,803,547
Income and other taxes payable	685,229	443,139
Payable to shareholders	231,414	—
Principal instalments due within one year on long-term debt	609,966	137,443
	31,079,671	5,469,129
Long-term debt (note 2)	8,430,044	2,431,154
Minority Interest in Preferred Shares of Subsidiary Companies	430,100	—
SHAREHOLDERS' EQUITY		
Capital stock (notes 3 and 5)		
Authorized		
39,266 6% Cumulative first preference shares, par value $25 each, redeemable at $26.25		
1,857,240 Convertible, non-participating, voting second preference shares, par value $5 each		
2,000,000 common shares without par value		
Issued		
39,266 First preference shares (39,675 in 1966)	$ 981,650	$ 991,875
1,857,240 Second preference shares	9,286,200	—
523,479 Common shares (483,479 in 1966)	1,364,300	1,204,300
	11,632,150	2,196,175
Contributed surplus, arising on purchase of first preference shares	1,433	485
Retained earnings	4,080,213	2,135,749
	15,713,796	4,332,409
	$55,653,611	$12,232,692

Contingent liabilities and commitments (note 5)

Long-term leases (note 6)

30, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne, Gunn, Helliwell & Christenson

Winnipeg, Canada
March 26, 1968

Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

Year ended November 30, 1967 (with comparative figures for 1966)

	1967	1966
Sales	$84,834,234	$19,838,899
Cost of sales, selling and administrative expenses other than the undernoted	80,233,102	18,307,446
	4,601,132	1,531,453
Deduct		
Depreciation	686,758	222,874
Amortization of deferred charges	12,922	12,922
Interest on long-term debt	538,647	153,906
Other interest	783,260	139,036
Remuneration of directors and senior officers	458,602	117,200
	2,480,189	645,938
Income before the undernoted	2,120,943	885,515
Income taxes (recoverable) (note 4)	(17,882)	425,000
	2,138,825	460,515
Loss on disposal of fixed asets	30,161	—
	2,108,664	460,515
Minority interest (dividends on preferred shares of subsidiary companies)	21,921	—
Net income for the year	$ 2,086,743	$ 460,515

Other interest for 1966 has been reclassified for comparative purposes.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended November 30, 1967 (with comparative figures for 1966)

	1967	1966
Balance at beginning of year	$ 2,135,749	$ 1,792,983
Net income for the year	2,086,743	460,515
	4,222,492	2,253,498
Dividends on		
First preference shares	59,082	59,731
Common shares	83,197	58,018
	142,279	117,749
Balance at end of year	$ 4,080,213	$ 2,135,749

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended November 30, 1967 (with comparative figures for 1966)

	1967	1966
Source of funds		
Operations		
Net income for the year	$ 2,086,743	$ 460,515
Add Items not involving a current outlay of funds		
Depreciation	686,758	222,874
Amortization of deferred charges	12,922	12,922
	2,786,423	696,311
Sale of fixed assets	584,153	49,619
Common shares issued for cash	70,000	10,000
Mortgage funds received	368,600	—
Working capital of subsidiaries at date of acquisition	10,865,358	15,102
Issue of second preference shares	9,286,200	—
Issue of 6% subordinated debentures	2,306,486	—
Issue of 6½% first mortgage bonds	5,060,000	—
	31,327,220	771,032
Application of funds		
Additions to fixed assets	724,246	242,315
Reduction of long-term debt	7,777,568	137,443
Dividends	142,279	117,749
Special refundable tax	40,991	17,079
Deposit on purchase of subsidiary	100,100	—
Investment in subsidiary companies	12,269,888	30,000
Other	131,233	(15,943)
	21,186,305	528,643
Increase in working capital	10,140,915	242,389
Working capital at beginning of year	3,555,793	3,313,404
Working capital at end of year	$13,696,708	$ 3,555,793

6% Subordinated debentures of $806,486 and the second preference shares were issued as partial consideration for the investment in subsidiary companies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended November 30, 1967

1. Basis of consolidation

The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly-owned, with the exception of minority interest in preferred shares of two subsidiaries.

2. Long-term debt

	1967	1966
Acklands Limited		
6½% First mortgage bonds, payable $185,000 semi-annually 1968 to 1981	$ 5,060,000	
6¾% Debentures		$ 1,680,000
6% Subordinated floating charge debentures, payable $576,620 December 31, 1968 to 1970 inclusive and $31,203 on December 31, 1971	1,761,063	
Non-interest bearing subordinated debentures, payable by the issuance of 22,500 common shares annually on January 1, 1968 to 1970 inclusive (see note 3)	270,000	360,000
J. J. Dawson Limited		
5.75% Serial debentures due January 1, 1970, payable $80,000 January 1, 1968 and 1969 and $20,000 on January 1, 1970	180,000	
6¼% to 8¼% Mortgages and agreements, payable in monthly instalments	1,768,947	528,597
	9,040,010	2,568,597
Less principal instalments included in current liabilities	609,966	137,443
	$ 8,430,044	$ 2,431,154

The 6% subordinated debentures issued to the vendor as partial consideration on acquisition of the shares in Prairie Pacific Distributors Limited have been reduced in 1967 in accordance with the purchase agreement by $545,423, representing income tax reassessments against certain of the acquired companies.

The trustee for the first mortgage bondholders may require postponement of debenture payments until 1981, however, the completion of financing being arranged subsequent to November 30, 1967 will remove this restriction.

3. Capital stock

Supplementary Letters Patent

Authorized capital was increased by the creation of 1,857,240 convertible, non-participating, voting second preference shares of the par value of $5 each. These second preference shares are convertible into common shares in accordance with a formula related to the annual earnings of the company.

Common shares are reserved as follows at November 30, 1967:

(a) 67,500 shares for issue at $4.00 per share in payment of the non-interest bearing subordinated debentures (see note 2).

(b) 20,000 shares for issue at $13.50 per share as part consideration for the purchase of a subsidiary (see note 5).

(c) 300,000 shares at $8.342 per share, the maximum number of shares issuable under an option agreement granted to the vendor of the shares of Prairie Pacific Distributors Limited as consideration for a guarantee of bank advances of $1,000,000. The number of shares to be issued is based on the amount of 6% debentures outstanding at December 31, 1969. The company intends to retire these debentures and eliminate this option on the completion of financing being arranged subsequent to November 30, 1967.

Shares issued in 1967

1,857,240	Second preference shares for $9,286,200 as part of the consideration for the purchase of companies acquired during the year.
17,500	Common shares for $70,000 on exercise of employee stock options.
22,500	Common shares for $90,000 to retire non-interest bearing debentures.

Shares purchased in 1967

409	First preference shares purchased for cancellation.

Subsequent transactions

620,000	Second preference shares are to be converted into 620,000 common shares, in accordance with the conversion rights attached thereto, thereby decreasing the issued and authorized second preference share capital by $3,100,000 and increasing the authorized and issued common share capital by a like amount.
22,500	Common shares have been issued in settlement of $90,000 of non-interest bearing debentures outstanding.

4. Income taxes

No provision for income taxes is required for the year as a result of the application of previous years' losses of companies acquired in 1967 against the current year's income. Taxes otherwise payable for the year would have been $1,290,000.

At November 30, 1967, losses aggregating $2,088,000 were available to offset future earnings in certain of the companies acquired in the 1967 fiscal year.

Some of the acquired companies have appealed certain assessments which are fully provided for in the accounts. In the event that these appeals are successful the losses available at November 30, 1967 to offset future earnings would be increased by $310,000.

In the case of certain of the companies, capital cost allowances have exceeded depreciation recorded in the accounts in prior years. In 1967, depreciation in these companies exceeded capital cost allowances and, accordingly, accumulated tax reductions applicable to future years (not recorded in the accounts) have been reduced from $242,600 to $232,000.

5. Contingent liabilities and commitments

Contingent liabilities under conditional sales agreements assigned with recourse and other guarantees total approximately $536,000.

By agreements, the company has acquired or is to acquire, subsequent to November 30, 1967, The George Taylor Hardware Limited, H. C. Paul Limited, Delisle Ltd. and Morgan Welding Supply Company, Limited, except 6,917 preferred shares of Delisle Ltd., for $3,522,923, payable as follows:

$2,613,923	in cash,
$ 644,000	in non-interest bearing notes ($244,000 due by January 3, 1969, and $100,000 in each of the years 1970 to 1973 inclusive), and
$ 265,000	by the issuance of 20,000 common shares.

At November 30, 1967, a deposit of $100,100 had been paid on the purchase of one of these companies.

There are outstanding capital commitments on real estate under construction at November 30, 1967 of $416,000.

6. Long-term leases

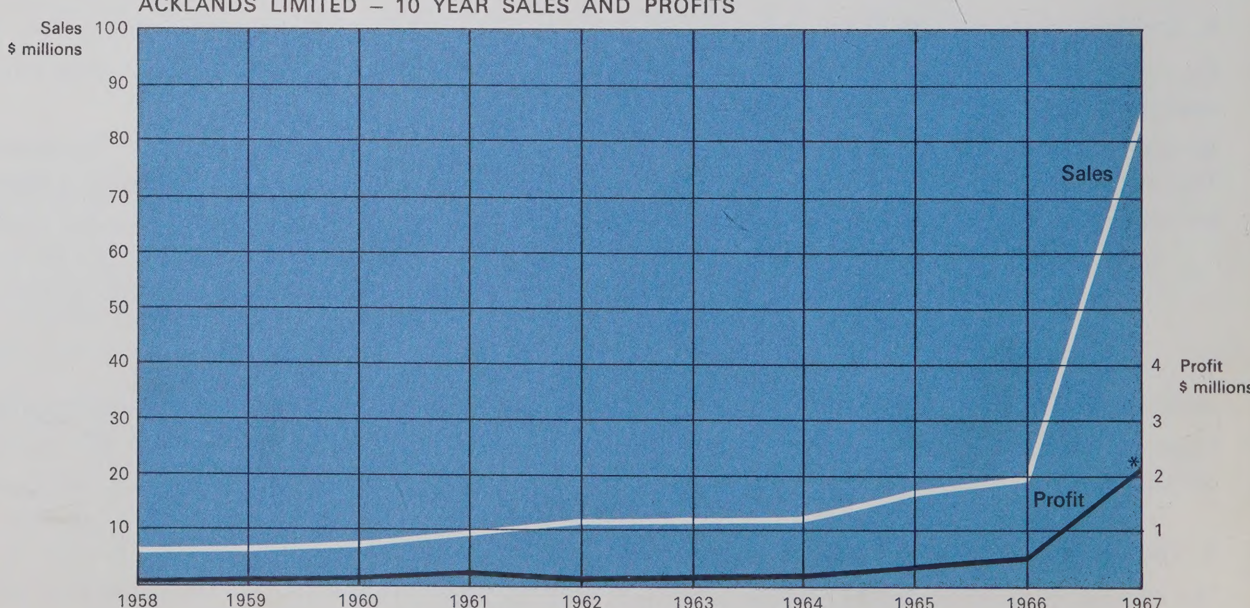
The companies have commitments under leases extending through 1995 which, after recoveries from sub-tenants totalling $1,562,000, call for future net rentals of approximately $3,173,000.

10 YEAR RECORD OF GROWTH

	1967	1966	1965
Sales	$84,834,234	$19,838,899	$16,899,600
Income before undernoted items	3,294,266	1,262,295	868,921
Depreciation	686,758	222,874	129,921
Interest on long-term debt	538,647	153,906	128,663
	1,225,405	376,780	258,584
Income before taxes	2,068,861	885,515	610,337
Taxes on Income	(17,882)	425,000	240,200
Net Income	$ 2,086,743	$ 460,515	$ 370,137
Net Income per share			
First Preference	$ 53.14	11.61	9.25
Common	$ *3.87	.83	.68
Working Capital	$13,696,708	3,555,793	3,345,521
Shareholders' Equity	$15,713,796	4,332,409	3,897,283
Equity per Share			
First Preference	$ 400.18	109.20	97.43
Second Preference	7.93		
Common	$ 10.40	6.91	6.32
Shares Issued			
First Preference	39,266	39,675	40,000
Second Preference	**1,857,240		
Common	523,479	483,479	458,479
Dividends Paid			
First Preference	$ 59,082	59,731	60,000
Common	$ 83,197	58,018	45,848
Number of Branches	150	36	33

*$1.74 per share after 1968 conversions **1,237,240 after 1968 conversion

ACKLANDS LIMITED – 10 YEAR SALES AND PROFITS

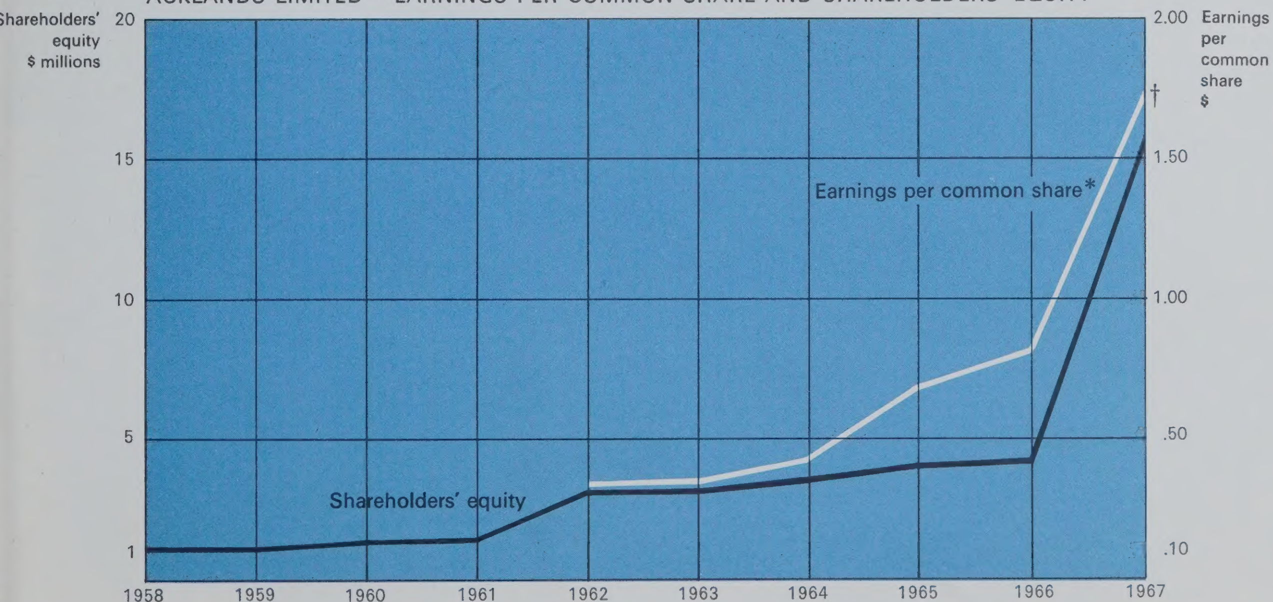


*First year of major expansion

1964	1963	1962	1961	1960	1959	1958
$12,578,025	$12,272,781	$11,526,144	$ 9,342,251	$ 7,564,737	$ 6,746,000	$ 5,596,706
647,733	495,426	318,934	533,344	368,522	380,984	285,568
85,530	64,677	47,306	44,849	24,396	22,333	25,368
109,718	104,783	80,658	73,971	24,274	2,343	2,769
195,248	169,460	127,964	118,820	48,670	24,676	28,137
452,485	325,966	190,970	414,524	319,852	356,308	257,431
201,500	125,500	18,200	199,392	144,025	170,510	114,700
$ 250,985	$ 200,466	$ 172,770	$ 215,132	$ 175,827	$ 185,798	$ 142,731
6.27	5.01	4.32		(See Note below)		
.42	.35	.33				
2,864,230	2,421,916	2,938,422	1,429,138	1,562,113	1,198,447	1,040,055
3,632,994	3,237,857	3,121,621	1,490,175	1,350,745	1,236,537	1,074,923
90.82	80.95	78.04				
5.74	5.56	5.27				
40,000	40,000	40,000	Nil	705	705	705
458,479	402,300	402,300	302,300	3,023	3,023	3,023
60,000	60,000	38,800	—	4,935	1,939	—
45,848	40,230	40,230	75,575	24,184	32,497	30,756
30	27	22	19	15	7	6

NOTE: Earnings and equities per share have not been shown prior to 1962, as these would not be comparable.

ACKLANDS LIMITED – EARNINGS PER COMMON SHARE AND SHAREHOLDERS' EQUITY



*Not comparable prior to 1962 †After allowing for 1968 conversions

Printed in Canada

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